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MEDIA RELEASE

DENEL SHOWS MUCH IMPROVED RESULTS FOR YEAR ENDED 31 MARCH 2007

Denel's Group Chief Executive Officer, Mr Shaun Liebenberg, announced today (25 July 2007) that the Group significantly bettered its financial performance for the past year ended 31 March 2007, posting a net loss of R549.1 million (2006: R1,363.4 million) on turnover of R3,268.1 million (2006: R2,773.2 million), an improvement of almost 60%.

Gross profit rose to R754.0 million (2006: loss of R131.1 million), which represents an improvement of 675%.

The R495 million increase in turnover (17.8%) from the previous year is attributed mainly to progress on contracts like the Umkhonto surface-to-air missile, Airbus A400M military transport aircraft, the Agusta A109 light utility helicopter (LUH) and South Africa's ground-based air defence system (GBADS).

Incremental sales by Denel Land Systems and Denel Munitions to clients in South America, Europe and the Middle East added to the increased turnover.

"We focused on revenue generation and cost control over the past 18 months," Shaun Liebenberg said. "This led to the huge improvement in gross profit. Sales order cover increased from a base of 45% last year to 75% (as at April 2007) for the new year."

At year-end Denel received a number of large contracts, notably the R8.3 billion 'Hoefyster' - the biggest in Denel's 15-year existence, and the A-Darter air-to-air missile contract worth approximately R1 billion. Brazil is a joint industrial partner with South Africa on the A-Darter programme. Denel Land Systems, as the prime contractor on 'Hoefyster', has to deliver 264 units in five variants of the new generation infantry combat vehicle to the South African Army.

Other noteworthy deals came to Denel Munitions and Denel Optronics. BAE Systems awarded Munitions a contract worth R300 million over three years to supply brass cups, which are used in the manufacture of small caliber ammunition. Denel Optronics, in which German firm Carl Zeiss Optronics has acquired a majority holding, received a BAE Systems contract worth R200 million to produce 450 units of its unique pilot helmet tracker system for use in the Eurofighter-Typhoon jet.

"The year was certainly not short on achievements for Denel's businesses," Shaun Liebenberg explained. "Eurocopter certified Denel Aviation as an accredited maintenance, repair and overhaul facility for the Oryx helicopter, and Lockheed Martin completed an audit there to certify it as a fully accredited Hercules C-130 facility."

Besides the 'Hoefyster' contract, Denel Land Systems also received a contract from Armscor for the Army's 60mm long-range integrated mortar system (Project 'Acrobat') and for upgrading of the SANDF's Rooikat infantry combat vehicle and G5/G6 guns.

Denel Saab Aerostructures delivered top shells for the Airbus A400M military transport aircraft, which is due for its first flight in 2008, and received further business from Airbus Germany to supply 188 sets of ribs, spars and sword (the internal structure of the aircraft's vertical tail). It also completed several Agusta A109LUH helicopters.

"Fact is, I'm proud that most of Denel's businesses could report successes, like Denel Dynamics that not only concluded the bi-national A-Darter contract with Brazil this year, but also signed the first UAV (unmanned aerial vehicle) business with that country," Shaun Liebenberg said. "They also commissioned the Umkhonto surface-to-air missile in Finland by doing a very successful flight test in the Baltic Sea."

Denel Munitions completed development of the 30mm ADEN ammunition for the Hawk fighter-trainer aircraft, which has significant benefits over the competitor product and resulted in the company getting a large international order for 150,000 ADEN rounds.

"Some of the notable progress we have made is evident in the unbundling of the organisation and the establishment of independent operating businesses," Shaun Liebenberg said. "We received the necessary approvals to incorporate some of the businesses during the year, and this process will continue in the coming months."

The agreement signed with Saab in Sweden in June 2006 regarding the establishment of a new aerostructures company, led to Saab AB (publ) taking an initial minority equity stake and operational management control, with Denel retaining an 80% holding. This business was fully incorporated and started operating as Denel Saab Aerostructures (Pty) Limited with effect from 1 February 2007.

At the close of the financial year Denel and German company Carl Zeiss Optronics GmbH agreed on an equity partnership for Denel Optronics. Denel was to retain a minority share with Carl Zeiss Optronics taking a majority holding of 70%. The effective transaction date was after year-end, with final share transfer on 20 July 2007. The company now trades as Carl Zeiss Optronics (Pty) Limited.

Negotiations with other local and international defence companies are still under way to conclude partnerships for some of Denel's other businesses in the near future.

"On all fronts of our macro strategy we've made solid progress: from engaging state agencies to partnering and introducing a commercial culture in the business," Shaun Liebenberg stated. "We further reduced staff numbers, invested in skills development, and with a view to improve financial integrity, we introduced high-level executive management and financial skills, along with outsourcing internal audit and taking a more robust approach to risk management."

At year-end Denel's staff complement was at 7,634 - a reduction of 6% from 8,120 in the previous year.

"Last year I said the total re-engineering of Denel was well under way. Our results this year clearly show we are on the road to improved fortunes," Shaun Liebenberg said. In his conclusion, he stressed that there were still many issues to be resolved. He was confident that in the next 24 to 36 months, Denel would be in a sustainable position.

Importantly, at year-end Fitch Ratings affirmed Denel's national ratings based on Fitch's opinion that Denel's immediate shareholder, the Department of Public Enterprises, remained committed to returning Denel to profitability in the medium-term. It rated Denel at Senior Unsecured 'AA(zaf)', with Stable Outlook and Short-term 'F1+(zaf)'. In addition, according to Fitch, South Africa's Department of Defence lends its support to the Group's recovery. The Stable Outlook reflects Fitch's expectations that the South African government will continue to support Denel.

Chairman of the Board of Directors, Dr Sibusiso Sibisi, thanked the Minister and Department of Public Enterprises for their support in turning Denel around.

"The Board has been further strengthened from nine to 13 members. This, together with the strength of individual members' capacities, sends a powerful message to all stakeholders of the intent to make Denel successful. I believe we have done well, although continued effort is required for the company to become profitable - and to remain a valuable asset to South Africa," Dr Sibisi stated.

Further highlights from the group annual financial results:

With revenue increased by 18%, Denel ended the year with a cash balance of R338.4 million, and increased equity and reserves at R626.7 million, thus enhancing the solvency of the Group and application of the going concern assumption.

Shareholders' equity improved from a deficit of R15.8 million in 2004/05 to a positive R632.7 million (2006: R614.8 million). Denel also managed a reduction in total liabilities by R191.4 million (4.7%).

Interest bearing borrows for the year amounting to R834.0 million (2006: R846.2 million) included Denel's Corporate Bond of R825 million, which matures shortly. Funding for the bond is not included in the shareholder's recapitalisation funds.

Although operating costs went up, mainly due to provisions for debt in one business, they showed a reduction as a percentage of sales from 42% to 38%. Cost of sales decreased from 105% to 77% driven by improvements in contract management processes, increased labour productivity and a decrease in contract loss provisions.

In evaluating the appropriateness of the going concern assumption used in the preparation of the annual financial statements, the Directors considered the following:

* The shareholder (South African Government) provided financial support by means of recapitalisation over the past two years and a further commitment of R933 million, bringing the total to R3.5 billion;
* The shareholder views Denel as a strategic asset and will assist in maintaining its going concern status;
* Cash on hand, recapitalisation funds and a domestic medium term facility show positive cash position as at 31 March 2008. Positive reserves are forecast to last to the end of the next financial year;
* The sale of non-core assets, not taken into account in the cash flow forecast, is far advanced, which will result in proceeds of approximately R606 million - (a total of R1 billion in the past 24 months);
* Expected revenue from the unsuccessful bid of the Rooivalk attack helicopter in Turkey was not considered in forecasts or budgets, therefore having no impact on the going concern assumption;
* The year-end order cover was boosted by securing two large contracts, Hoefyster and A-Darter (for a total of R9.5 billion); and
* The business strategy being implemented will unlock value and return the Group to sustainable profitability.

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